

Break-fee

Background

A young couple bought their first home in 2020 with the help of a mortgage broker. In 2024, the couple considered leaving New Zealand for better pay and superannuation opportunities.

The broker outlined four options:

1. sell and exit the loan early,
2. top up the loan,
3. take a second mortgage, or
4. arrange a reverse mortgage.

The option of selling the house and exiting the loan early included a note regarding break-free penalties. Break-free penalties on home loans refer to fees charged by lenders when borrowers pay off their loans early before the end of their mortgage term. These fees are intended to compensate lenders for the loss of future interest payments. The couple claimed they recalled discussing break-free penalties with the broker to the value of several thousand dollars, so the couple decided to postpone the move. However, the broker denies this.

In 2025, the bank confirmed that a break-fee penalty would not have applied. The couple contacted FDRS, claiming they received poor financial advice from the broker about break-free penalties and sought compensation for missed earnings, rising international property prices, and the current reduced property value in New Zealand.

Next steps

FDRS reviewed all correspondence between the parties and the available evidence provided by the parties and found that the reference made by the broker in relation to break-free penalties was considered information and not financial advice under the Financial Advisers Act 2008.

FDRS also found that any financial loss was speculative, as it was not clear that the couple solely relied on the information regarding break-free penalties, as three alternative options for consideration were also provided.

Outcome

The complaint was **not upheld**.

Lessons learned

Consumers should explore all options and undertake further research before making any financial decision.

For providers, good record keeping is essential. This provider was able to demonstrate they had followed best practice.

** Names and details changed for privacy*